Capital Trends
US Big Picture

July 2021 | **11.8%** YOY price change | **$38.8b** Transaction volume | **74%** YOY volume change

Capital flows into commercial real estate have more than just rebounded from the lows seen in 2020. Sales in July were above normal levels for this time of year. Everything is not as it was, however, with some property sectors doing much of the heavy lifting.

Preferences for certain asset classes have shifted throughout the pandemic. Investors are more focused on the apartment and industrial sectors at the moment and less excited about the opportunities in the office and retail sectors. This said, given how bad conditions were in 2020, every major property sector experienced double- or triple-digit growth rates in deal volume relative to July last year.

The apartment sector was the lead destination for investment capital in July, constituting 35% of total commercial real estate investment in the month. This figure is slightly lower than the totals for the year to date, for which apartment represents 37% of the total. The sector lost ground as a share of the market not because of any pullback in apartment investing, rather some other laggard sectors are starting to spark back to life.

The office sector in particular is gaining ground, representing 26% of sales volume in July but only 20% for the year to date. Deal activity in July was slightly elevated from the average July levels seen since 2005. Still, investment sales for CBD offices remain muted because of the uncertainty surrounding the use of office space in urban areas. There is more of a meeting of the minds between current owners and potential buyers for suburban assets, and deal activity is above normal trends for a July.

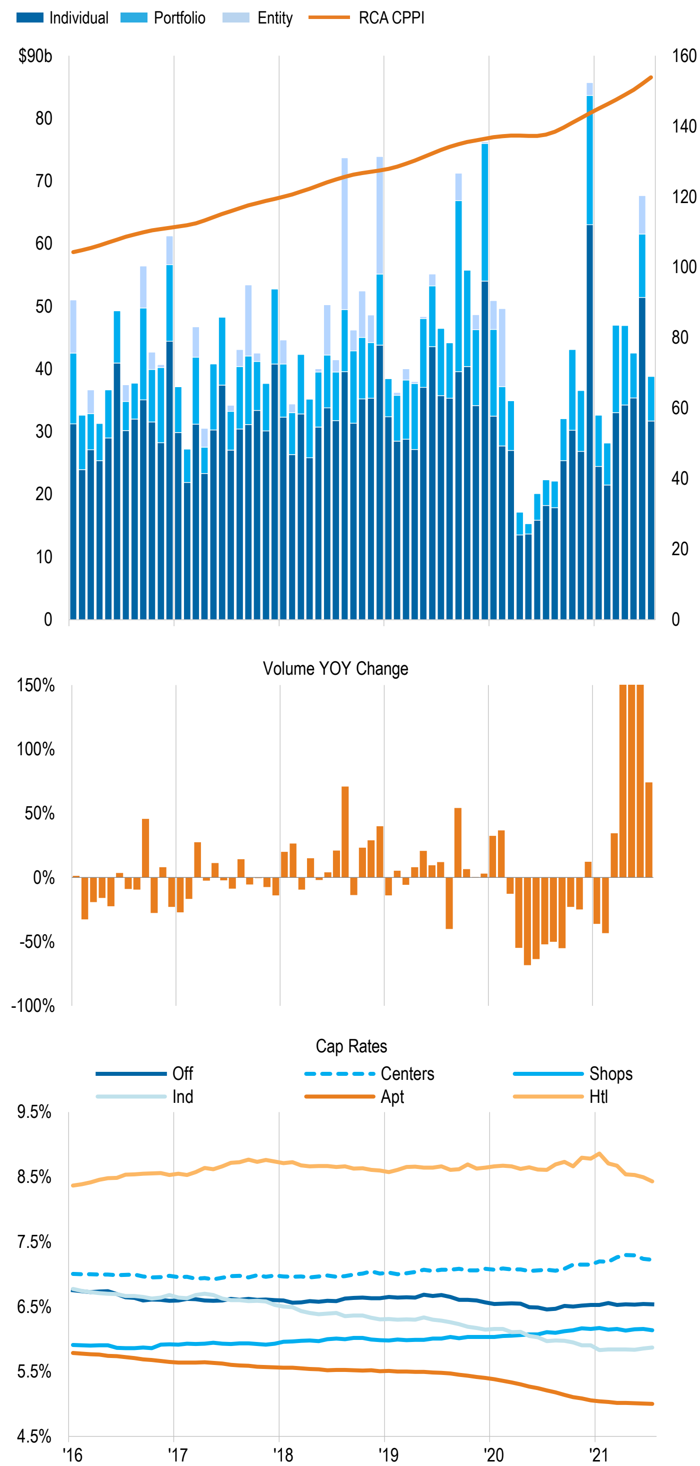
Prices are on the rise. The RCA CPPI US National All-Property Index rose 11.8% YOY in July. The only other time when the RCA CPPI grew so quickly was in the period from 2004 to 2005 in the midst of the housing boom. The apartment sector delivered the strongest growth for the month, with the index up 13.5% YOY. The laggard was CBD offices where prices fell 4.6% YOY.

Transaction Volume and Pricing Summary

	July '21		YTD '21			RCA CPPI
	Vol ($b)	YOY	Vol ($b)	YOY	Cap Rate	YOY
Office	10.0	90%	59.4	18%	6.5%	8.8%
Retail	3.1	34%	27.3	30%	6.5%	7.5%
Industrial	7.5	40%	61.9	18%	5.9%	11.8%
Hotel	2.4	252%	23.2	255%	8.4%	3.8%
Apartment	13.7	122%	111.5	79%	5.0%	13.5%
Snr Hsg & Care	0.7	36%	8.3	50%	5.5%	
Dev Site	1.5	-25%	12.1	-2%		
Total	38.8	74%	303.7	44%		11.8% *

*All-Property Index comprises office, industrial, retail, apartment

Monthly Transaction Volume & Pricing



Trailing 12-mth cap rates; volume YOY change truncated to 150%

Spotlight on Manufactured Housing

Investors are increasingly active in alternative commercial real estate sectors. Manufactured housing (MHC) represents a small share of the commercial real estate market, at approximately 1% of total deal volume, but activity is gaining momentum.

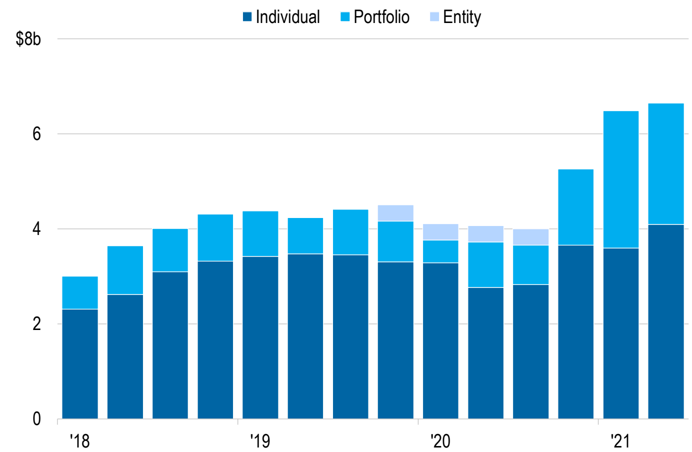
Sales of individual properties have reached the highest levels yet. Acquisitions in the four quarters through Q2'21 totaled $4.1b, up 48% compared with the prior four quarters and 30% above the long-term average.

Pricing for these MHC assets, which are primarily located in suburban locales, has remained tight. RCA Hedonic Series cap rates, which control for quality and locational differences in the underlying sample, fell 30 bps year-over-year to reach the 5.0% level in Q2'21. For apartments located outside the 6 Major Metros, RCA HS cap rates have been compressing in recent years and also hit 5.0% last quarter. These are the lowest levels ever seen for both housing sectors.

Since 2017, private buyers have dominated the MHC market. However, institutional players are gaining share in the sector and accounted for 23% of volume in the past 24 months, up from the 13% average seen during 2017-19. Looking at the top 10 buyers over the past 24 months, four are institutional investors. However, these players secured their spots by acquiring their MHC assets in bulk. On average, 83% of their total acquisition activity was portfolio transactions.

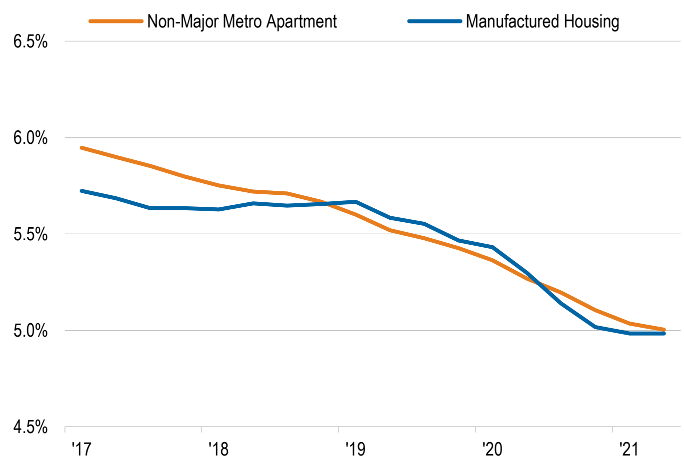
Phoenix ranked as the #1 manufactured housing market in the past 24 months. Acquisition activity was more than double that seen in Orange Co, the second largest market. Portfolio activity again bolstered overall investment activity in some markets. Excluding portfolio transactions would knock Detroit and Dallas out of the top 10.

Transaction Volume



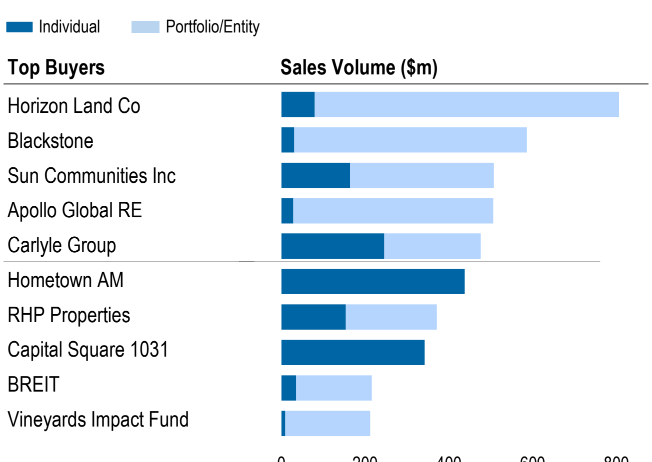
4-quarter trailing volume

Cap Rates



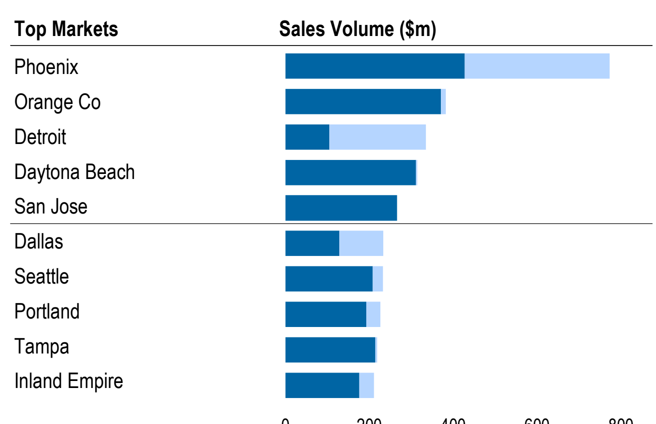
RCA Hedonic Series cap rates

Top Buyers



24 months through Q2'21

Top Acquisition Markets



24 months through Q2'21

Cross-Border Investor Activity

Cross-border investment declined as a share of total investment in Q2'21. This drop happened despite improvements in deal activity by cross-border investors. The story here is that U.S. commercial real estate investment is improving overall, but domestic capital sources are dominating.

The increase in deal flow by cross-border investors can best be seen in the quarterly data. Cross-border investment activity totaled $7.3b in Q2'21, up 48% from a year earlier. That pace of growth would be impressive in any normal period but pales in comparison to the 212% YOY pace of growth for domestic capital sources.

Part of the issue behind the outperformance by domestic capital sources is sector selection. Total U.S. investment activity is climbing as the industrial and apartment sectors gain favor with investors of all types. These sectors are popular with cross-border players as they provide stable yields and some upside on income growth in the current environment. Deal sizes, though, limit the ability of these investors to deploy capital in these sectors.

Cross-border investors have deeper pockets than many other investors and by necessity must pursue larger deals. Industrial deals pursued by cross-border investors came in at an average $27m price over the last 12 months versus an average $13m price for the market overall. Likewise in the apartment sector, the comparable price averages were $41m and $22m per property.

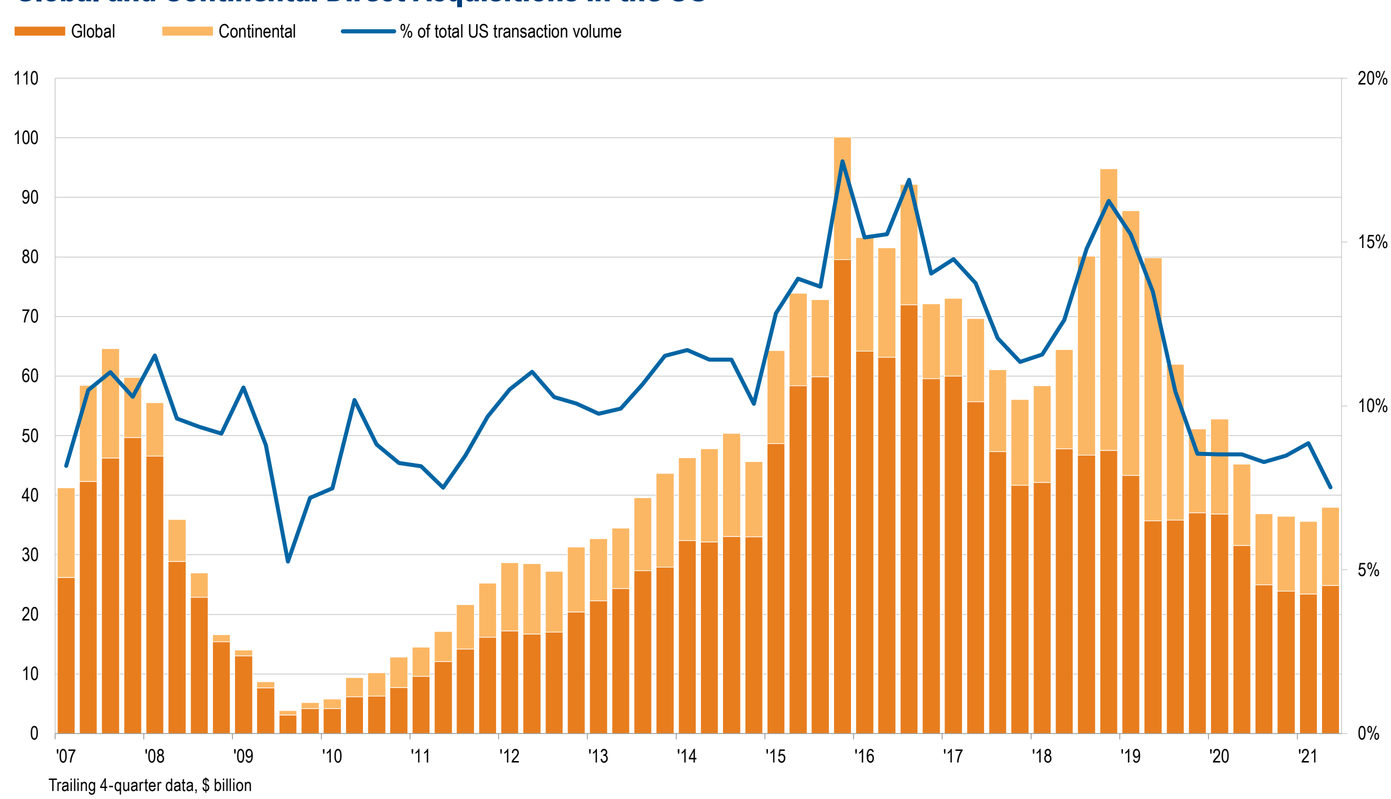
The issue here is one of efficiency in portfolio construction. These markets are dominated by small assets, and the time costs involved in assembling portfolios of small properties limit the ability of cross-border investors to deploy capital. The capital simply cannot get out the door fast enough when buying smaller assets.

Office and retail had been the leading sectors for cross-border investors in the past because of this issue around the efficiency of capital deployment. Putting a billion dollars to work in a CBD office tower was a simpler decision for these investors historically when there was more certainty around the use of office space. Likewise, a major investment in a regional mall seemed like a safe way to preserve capital before the disruptive influences of online retailing.

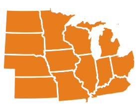
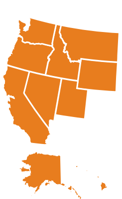
Given the uncertainty around the opportunity in these sectors, deal volume has retreated. CBD office investment totaled only $4.9b over the last 12 months, down 62% from the pace set over the comparable period a year earlier. Likewise, the pace of investment in the retail sector was down 62% from the pace set a year ago, with cross-border acquisitions totaling only $1.4b.

A version of this article appears in the current edition of the US Cross-Border Investment Compendium. Download the report and data file from the RCA website.

Global and Continental Direct Acquisitions in the US



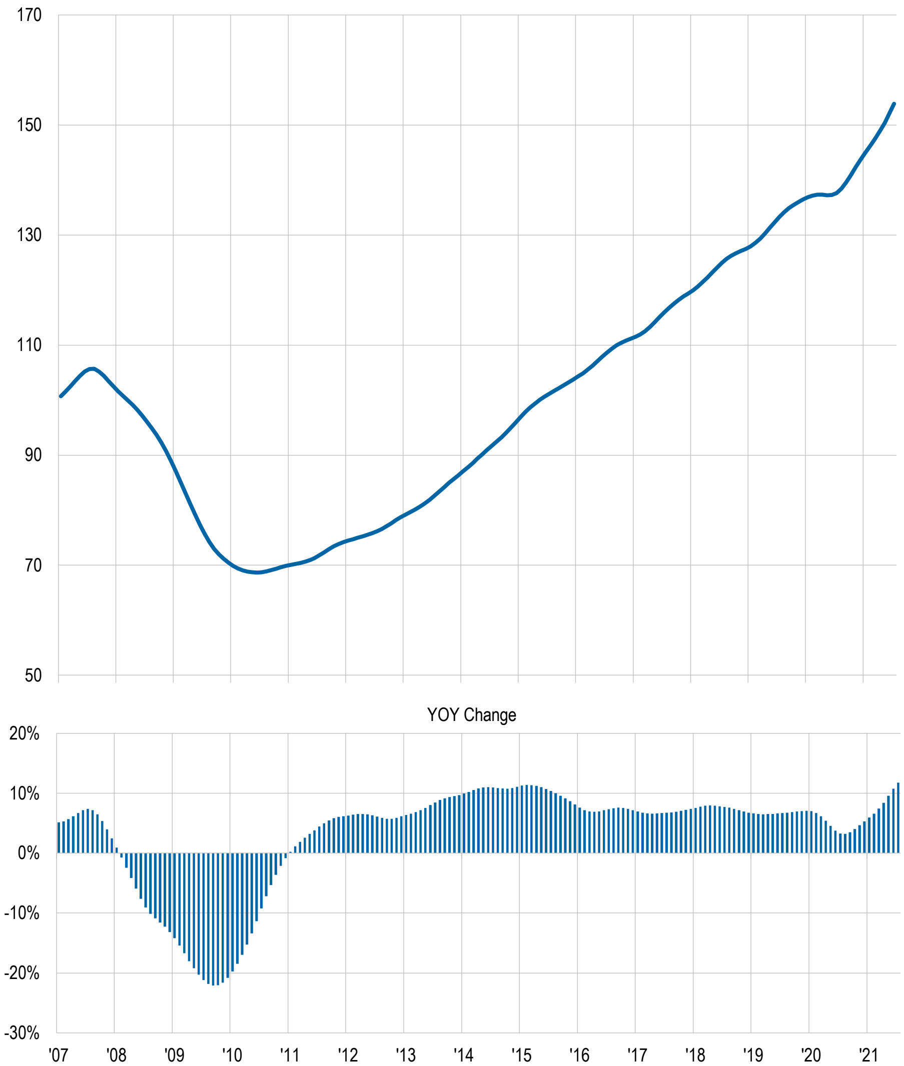
Market Table *All Property Types*

Transactions Reported Closed		Office		Industrial		Retail		Apartment		Hotel		Dev Site		Senior Hsg & Care		Total	
YTD through July '21		Vol ($m)	# Props	Vol ($m)	# Props	Vol ($m)	# Props	Vol ($m)	# Props	Vol ($m)	# Props	Vol ($m)	# Props	Vol ($m)	# Props	Vol ($m)	# Props
Mid-Atlantic	Baltimore	660.4	23	806.3	36	99.0	10	2,086.8	40	178.6	16	72.7	6	133.7	9	4,037.6	140
	DC	979.3	15	61.0	6	106.6	9	188.6	13	270.1	5	64.0	3			1,669.7	51
	DC MD burbs	109.4	12	338.2	22	123.0	13	2,088.8	32	182.8	15	204.3	10	129.5	8	3,176.1	112
	DC VA burbs	1,318.3	41	427.6	20	180.5	17	1,506.2	23	399.5	26	370.4	16	77.1	6	4,279.7	149
	Philadelphia	1,147.5	43	1,062.5	120	156.0	23	554.3	45	151.8	19	110.6	18	42.7	3	3,225.4	271
	Pittsburgh	224.3	8	113.9	9	64.7	11	152.0	10	77.5	9			22.5	3	655.0	50
	Richmond/Norfolk	801.8	33	379.9	31	168.7	25	907.4	47	202.4	26	60.0	11	176.5	9	2,696.6	182
	Tertiary Mid-Atlantic	272.2	54	1,929.6	116	600.3	82	1,129.9	68	264.0	43	330.0	24	319.5	23	4,845.6	410
	Total	**5,513.3**	**229**	**5,119.1**	**360**	**1,498.9**	**190**	**8,613.9**	**278**	**1,726.9**	**159**	**1,212.0**	**88**	**901.6**	**61**	**24,585.7**	**1,365**
Midwest	Chicago	838.8	50	2,752.5	221	954.6	123	1,790.8	117	373.8	40	316.3	44	282.4	23	7,309.3	618
	Cincinnati	116.3	12	348.9	24	203.2	27	309.3	24	51.1	9	7.1	2	15.1	1	1,051.1	99
	Cleveland	82.9	9	224.4	19	231.2	13	111.5	13	14.3	3			17.7	2	682.0	59
	Columbus	235.3	12	401.5	36	107.8	19	320.7	19	61.1	11	45.7	6	66.4	7	1,238.6	110
	Detroit	316.9	33	446.7	36	101.3	15	246.0	19	153.2	22	42.8	5	57.7	4	1,364.6	134
	Indianapolis	145.0	24	690.9	53	75.0	20	651.0	37	53.3	12	118.3	11	174.0	6	1,907.6	163
	Kansas City	285.4	33	554.8	40	142.1	17	537.8	34	67.7	9	81.8	13	98.2	4	1,767.8	150
	Minneapolis	582.6	35	829.2	80	318.3	49	1,156.8	99	137.1	11	104.3	20	107.2	5	3,235.5	299
	St Louis	95.1	13	978.1	41	149.4	22	846.1	26	48.1	9	17.9	3	74.8	8	2,209.4	122
	Tertiary Midwest	1,042.7	131	2,206.6	239	1,870.9	322	2,512.3	257	497.5	89	168.9	35	441.1	51	8,740.0	1,124
	Total	**3,754.5**	**354**	**10,089.6**	**831**	**4,199.6**	**651**	**8,482.3**	**645**	**1,457.3**	**215**	**902.9**	**139**	**1,334.6**	**111**	**30,220.9**	**2,946**
Northeast	Boston	6,387.7	84	1,698.1	126	704.0	54	2,101.2	81	432.0	21	296.6	20	20.9	4	11,640.6	390
	Hartford	20.5	5	151.4	31	140.4	7	168.3	14	54.9	6	8.3	2	17.1	1	561.0	66
	Long Island	137.2	11	319.3	25	149.6	10	37.0	2	84.1	6	36.3	5	4.5	1	768.1	60
	Manhattan	2,864.8	39	31.2	2	705.2	52	1,846.1	145	497.0	9	18.9	4			5,963.3	251
	No NJ	1,651.8	66	1,591.4	123	487.1	66	1,300.3	105	308.8	19	385.2	28	311.2	11	6,035.7	418
	NYC Boroughs	293.4	26	1,176.7	85	505.8	92	841.3	120	180.1	5	197.0	20	113.6	4	3,307.8	352
	Stamford	137.1	9	114.1	11	24.3	6	855.0	14	46.6	5			17.6	1	1,194.7	46
	Westchester	101.9	14	353.9	13	116.2	12	290.3	12	45.4	5	108.9	7			1,016.5	63
	Tertiary Northeast	432.3	60	1,039.5	97	885.9	82	981.6	78	496.9	62	54.2	11	127.4	15	4,017.6	405
	Total	**12,026.8**	**314**	**6,484.2**	**515**	**3,718.3**	**381**	**8,421.0**	**571**	**2,145.9**	**138**	**1,105.4**	**97**	**612.2**	**37**	**34,513.8**	**2,053**
Southeast	Atlanta	2,651.1	84	2,216.6	201	1,167.6	123	7,459.0	182	588.0	37	388.1	50	279.1	16	14,749.4	693
	Broward	559.0	49	331.0	42	211.5	28	1,363.1	47	255.3	19	131.1	18	79.4	5	2,930.4	208
	Charlotte	891.0	26	668.8	75	300.2	51	2,006.3	63	163.8	18	295.2	39	20.4	3	4,345.8	275
	Jacksonville	222.7	20	249.4	23	190.6	20	886.4	41	141.9	17	78.5	14	206.3	10	1,975.8	145
	Memphis	123.3	11	441.5	23	124.5	26	489.3	35	93.1	13	70.4	3	52.8	9	1,395.0	120
	Miami	1,686.5	56	839.2	75	420.5	44	1,078.8	81	638.1	23	662.0	39	108.3	4	5,433.4	322
	Nashville	507.1	33	612.8	47	252.5	34	1,622.0	42	368.2	15	160.4	22	40.8	5	3,563.9	198
	Orlando	268.9	26	295.8	39	345.6	56	2,626.5	57	1,083.3	37	115.7	21	107.8	7	4,843.7	243
	Palm Beach	1,153.0	44	149.4	24	373.7	38	1,154.4	24	113.1	4	155.9	11	138.2	8	3,237.6	153
	Raleigh/Durham	350.0	30	734.7	40	235.1	32	2,220.5	57	173.6	23	261.3	26	15.6	1	3,990.9	209
	Tampa	354.1	37	606.0	58	369.3	61	1,951.3	67	375.3	28	111.5	19	216.9	15	3,984.3	285
	Tertiary Southeast	1,812.5	226	4,259.8	304	2,349.0	439	10,506.1	583	2,629.1	224	701.2	116	1,107.9	99	23,365.7	1,991
	Total	**10,579.3**	**642**	**11,405.0**	**951**	**6,370.2**	**965**	**33,363.7**	**1,279**	**6,622.9**	**458**	**3,131.1**	**378**	**2,373.5**	**182**	**73,845.9**	**4,855**
Southwest	Austin	2,091.4	48	708.0	43	278.1	36	3,401.0	91	809.1	27	168.5	18	63.1	2	7,519.1	265
	Dallas	2,347.6	108	2,335.0	163	1,128.8	127	9,303.2	245	593.3	56	720.3	63	406.1	20	16,834.4	782
	Denver	1,076.2	55	707.0	57	358.5	45	3,958.7	106	431.6	25	199.4	22	88.6	4	6,820.0	314
	Houston	752.2	56	2,045.8	145	615.6	97	3,671.6	129	515.5	57	206.9	29	138.2	8	7,945.9	521
	Phoenix	1,062.9	85	1,479.9	121	1,068.8	116	7,049.8	199	418.4	35	721.8	78	31.7	2	11,833.3	636
	San Antonio	314.5	31	362.4	26	315.4	24	1,789.2	65	550.5	21	23.5	3	20.3	3	3,375.8	173
	Tertiary Southwest	935.4	119	1,410.0	153	1,105.8	188	4,291.1	249	853.3	114	181.7	37	418.5	40	9,195.9	900
	Total	**8,580.2**	**502**	**9,048.2**	**708**	**4,871.0**	**633**	**33,464.6**	**1,084**	**4,171.8**	**335**	**2,222.2**	**250**	**1,166.4**	**79**	**63,524.4**	**3,591**
West	East Bay	1,353.9	34	1,409.3	84	464.8	38	982.7	59	430.1	21	130.6	12	164.4	4	4,935.8	252
	Inland Empire	218.0	35	2,802.7	161	319.1	46	833.3	41	157.7	16	380.9	41	149.4	6	4,861.0	346
	Las Vegas	323.5	33	1,062.2	70	363.2	45	1,709.8	53	107.0	10	308.2	19	54.4	4	3,928.4	234
	Los Angeles	2,088.7	151	3,957.2	351	1,373.8	176	4,668.6	356	861.0	40	497.7	39	281.8	10	13,728.7	1,123
	Orange Co	815.1	50	1,322.2	119	458.0	63	1,329.4	65	582.4	33	64.0	9	105.5	8	4,676.5	347
	Portland	239.6	22	692.0	47	252.6	32	1,580.8	80	240.2	19	72.2	10	150.9	10	3,228.5	220
	Sacramento	443.2	34	707.0	66	233.5	42	654.9	41	228.8	20	102.1	15	88.3	5	2,457.9	223
	Salt Lake City	546.0	52	594.8	62	178.4	29	633.8	35	108.9	13	186.5	28	8.9	2	2,257.2	221
	San Diego	2,307.8	82	979.0	95	541.4	45	1,291.0	106	606.0	23	193.7	26	108.7	5	6,027.6	382
	San Francisco	2,536.1	31	928.9	38	220.4	18	482.5	39	888.1	12	121.6	6	62.0	1	5,239.7	145
	San Jose	3,992.2	67	1,100.0	62	337.9	25	283.5	31	525.3	20	353.6	14	42.8	2	6,635.3	221
	Seattle	2,883.5	87	1,481.6	100	485.9	47	2,096.7	78	863.5	42	605.0	42	221.2	17	8,637.3	413
	Tertiary West	1,167.9	154	2,498.4	261	1,429.0	211	2,606.0	192	1,508.6	119	504.0	84	511.2	43	10,225.2	1,064
	Total	**18,915.5**	**832**	**19,729.8**	**1,518**	**6,657.9**	**817**	**19,153.0**	**1,176**	**7,107.6**	**388**	**3,520.3**	**345**	**1,949.5**	**117**	**77,033.6**	**5,193**
Total	**Total US**	**59,369.5**	**2,873**	**61,876.0**	**4,883**	**27,315.9**	**3,637**	**111,498.6**	**5,033**	**23,232.4**	**1,693**	**12,093.9**	**1,297**	**8,337.9**	**587**	**303,724.2**	**20,003**

CPPI *Summary*

1.2% Change past month **11.8%** Change past year

National All-Property Index



Change in RCA CPPI July 2021

	1-mth	3-mth	1-yr	3-yr	5-yr	10-yr
Office	1.0%	2.9%	8.8%	12.0%	28.4%	79.9%
Office - CBD	-0.1%	-0.5%	-4.6%	0.4%	11.1%	78.2%
Office - Sub	1.3%	3.6%	11.7%	13.0%	31.6%	82.5%
Industrial	1.1%	3.3%	11.8%	35.7%	58.0%	126.6%
Retail	1.2%	3.5%	7.5%	7.1%	10.1%	54.0%
Commercial	0.9%	2.5%	9.1%	17.7%	30.3%	84.3%
Apartment	1.6%	4.6%	13.5%	32.3%	61.6%	171.4%
All Types	1.2%	3.3%	11.8%	23.2%	41.7%	114.4%
6 Major Metros All Types	1.4%	4.2%	9.6%	18.7%	35.1%	108.5%
Non-Major Metros All Types	0.9%	2.6%	11.5%	24.5%	43.8%	117.7%

The headline gauge of U.S. property price growth continued to accelerate in July, as all four major property types posted larger price gains. The index grew 11.8% over the last year and 1.2% over the previous month.

Retail and office sector prices posted significant annual price jumps, extending their rebounds seen since mid-2020. The retail index logged a 7.5% YOY increase in July, the fourth consecutive month of signficant price acceleration.

The office sector index grew 8.8% YOY, driven by suburban office properties which increased 11.7% YOY. That's the fastest pace for the suburban office sector since 2015. By contrast, CBD office prices are firmly in the doldrums. The CBD index, which has been declining since Q4'20, fell 4.6% YOY in July.

Apartment prices increased 13.5% from a year ago and 1.6% from June, the fastest annual and monthly rates among the major property sectors. Only in 2005 and 2006 when the housing market was booming did apartment prices grow at a quicker annual pace.

The price index for industrial properties rose 11.8% YOY in July. Since April, monthly price growth for the sector has stagnated at 1.1%. Still, this price index has been resilient throughout the pandemic, never dropping below a 9% annual rate of growth.

Prices in the Non-Major Metros rose 11.5% YOY, the fastest rate of growth since 2006. In the 6 Major Metros, prices climbed 9.6%, continuing the rebound which began late in 2020.

Learn more about the RCA CPPI and sign up to receive reports here.

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About Real Capital Analytics

Real Capital Analytics (RCA) is the authority on the deals, the players and the trends that drive the commercial real estate investment markets. Covering all markets globally, RCA delivers timely and reliable data with unique insight into market participants, pricing and capital flows. The most active investors, lenders and advisors depend on RCA's market intelligence to formulate strategy and to source, underwrite and execute deals. An industry pioneer since 2000, RCA has offices in New York, San Jose, London, Singapore and Sydney. For more information, visit: rcanalytics.com

About Capital Trends

Capital Trends reports analyze and interpret trends in the global real estate market using RCA's comprehensive data. US Capital Trends is a monthly edition comprising an overview of the U.S. market and separate reports on the five main property types. Asia Pacific, Europe and Global Capital Trends are published quarterly. Australia Capital Trends was launched in February 2021.

Methodology

Data based on properties and portfolios $2.5m and greater unless otherwise stated.